

NO: R206

COUNCIL DATE: October 18, 2021

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **October 14, 2021**

FROM: **City Solicitor**

FILE: **2480-01**

SUBJECT: **Surrey City Development Corporation - 2021 Annual General Meeting**

RECOMMENDATION

The Legal Services Division recommends that Council:

1. Receive this report for information;
2. Receive the Notice of the 2021 Annual General Meeting ("AGM") and Agenda for Surrey City Development Corporation ("SCDC"), a copy of which is attached as Appendix "I" to this report;
3. Appoint the City Solicitor to represent the City of Surrey (the "Shareholder") at the 2021 AGM for the Corporation; and
4. As sole shareholder of SCDC, endorse the recommendations which are listed below and as set out in the Notice of Annual General Meeting and Agenda:
 - a. Approve the Agenda;
 - b. Approve the Minutes of the September 23, 2020 Annual General Meeting;
 - c. Approve the Financial Statements and Report of the Auditor for the Year Ended December 31, 2020;
 - d. Approve the Appointment of BDO Canada LLP ("BDO") as SCDC's Auditor for the Year Ending December 31, 2021; and
 - e. Receive the 2020 Report from the Board of Directors to the Shareholder.

INTENT

The purpose of this report is to have Council, on behalf of the City of Surrey as the sole shareholder of SCDC, address matters related to the 2021 AGM for SCDC, which is scheduled for October 25, 2021 at 5:30 PM and to approve these items in accordance with the Business Corporations Act.

BACKGROUND

SCDC was incorporated on April 24, 2007. SCDC is a for-profit entity whose mandate is to develop City-owned surplus lands in ways that advance the City into a more modern and complete community.

Pursuant to a Council resolution in 2020, which directed staff to complete an orderly dissolution of SCDC, significant progress has been made towards the City assuming SCDC operations as discussed in Corporate Report R193; 2020 a copy of which is attached as Appendix "II".

Since Corporate Report R193; 2020:

- The City has completed recruitment of a Development Manager and Development Project Manager in the Engineering Department;
- The following projects have been transferred from SCDC to the City:
 - Cedar Hills Mall at 12820/12830/12842 96 Avenue;
 - Kwantlen Park at 13229 and 13219 104 Avenue;
 - Gateway at 10735 University Boulevard and 13326 108 Avenue; and
 - Campbell Heights North Phase 5 Lot 10 at 19165 39 Avenue.
- Work is continuing on the remaining property transfers from SCDC to the City. These properties include:
 - Tynehead at 10279 164 Street and 16329 102 Avenue;
 - Bakerview at 15238 19 Avenue;
 - Brooksdale at 1760 192 Street and 192230 20 Avenue;
 - Campbell Heights East Phase 1 Remainder at 2750 194A Avenue; and
 - Campbell Heights East Phase 1 Walmart at 19525 24 Avenue.
- SCDC's former office space in the Surrey Central Tower as been sub-leased for the remainder of the lease obligation; and
- A development application, 20-0233, for Centre Block was submitted to the City's Planning & Development Department and it subsequently received 3rd reading on September 13, 2021.

By holding its 2021 AGM, SCDC will be able to conduct necessary business while the ongoing divestment of assets and liabilities continues.

DISCUSSION

SCDC's sole shareholder is the City of Surrey and SCDC is accountable to the City for its activities. In turn, the City of Surrey is accountable to the residents of Surrey. Until SCDC has completely divested itself of all assets and liabilities, it cannot be legally dissolved. Accordingly, SCDC and its shareholder must still conduct standard corporate business such as approving financial statements and appointing an auditor. This business may be conducted at the AGM. Having the AGM for SCDC and a public information meeting enables the company to report to the City and its residents on progress made during the prior year, and provides an opportunity for the shareholder or the public to raise questions and concerns. The Business Corporations Act provides that for each Corporation an AGM is to be held in every calendar year and not more than 15 months after the annual reference date for the preceding calendar year. The last AGM for SCDC was held on September 23, 2020. The Notice of Annual General Meeting and Agenda for 2021 includes those items that should be addressed at the 2021 AGM of SCDC.

SUSTAINABILITY CONSIDERATIONS

SCDC and City staff following the move of SCDC operations to the City support the objectives of the City's Sustainability Charter 2.0. In particular, their work relates to Sustainability Charter 2.0 themes of Built Environment & Neighbourhoods and Economic Prosperity & Livelihoods.

Specifically, their work supports the following Strategic Directions (“SD”) and Desired Outcomes (“DO”):

- Neighbourhoods and Urban Design SD1: Promote mixed use development in and around Town Centres and along transit corridors;
- Neighbourhoods and Urban Design SD5: Leverage, incentivize and enhance community benefits through the planning and construction of new development;
- Economy DO4: Surrey’s economy is diversified with a mix of service, industrial, agricultural and innovation-based businesses; and
- Economy DO8: The City’s strong revenue base includes a balance of commercial and residential property taxes.

CONCLUSION

As discussed in this report, staff recommend that Council appoint a shareholder representative to attend SCDC’s AGM and authorize them to take all necessary actions in order to carry out the AGM agenda.

Philip Huynh
City Solicitor

Appendix “I” – SCDC Notice and Agenda of the 2021 Annual General Meeting

Appendix “II” – Corporate Report R193; 2020

Appendix “III” – Minutes of the September 23, 2020 Annual General Meeting

Appendix “IV” – Financial Statements for the year ending December 31, 2020

APPENDIX “I”

SCDC Notice and Agenda of the 2021 Annual General Meeting

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NOTICE OF THE 2021 ANNUAL GENERAL MEETING

Meeting Date: October 25, 2021

Meeting Time: 5:30 pm

Meeting Location: The 2021 Annual General Meeting will be held virtually. Login details will be provided upon registration.

Please RSVP to JRArason@surrey.ca or contact (604)591-4367.

A G E N D A

No.	Item	Action
1.	Approval of Agenda Board Chair	Approval
2.	Approval of Minutes of the September 23, 2020 Annual General Meeting Board Chair	Approval
3.	Financial Statements and Reports of Auditor for Year Ended December 31, 2020 Controller	Approval
4.	Appointment of BDO as the Company’s Auditor for 2021 Controller	Approval
5.	Report of Directors to Shareholder Board Chair	Receive
6.	Adjournment Board Chair	

CORPORATE REPORT

APPENDIX "II"

NO: *R193*

COUNCIL DATE: *December 21, 2020*

REGULAR COUNCIL

TO: **Mayor & Council** DATE: **December 17, 2020**

FROM: **General Manager, Finance** FILE: **2480-01**
General Manager, Engineering
Director, Strategic Initiatives & Corporate
Reporting

SUBJECT: **Completion of the Transfer of the Surrey City Development Corporation**

RECOMMENDATION

The General Manager, Finance, the General Manager, Engineering and the Director, Strategic Initiatives & Corporate Reporting recommends that Council:

1. Receive this report for information;
2. Appoint Jeff Arason as President of Surrey City Development Corporation ("SCDC") effective January 1, 2021;
3. Appoint the directors and signing authorities as detailed in Appendix "II" effective January 1, 2021; and
4. Set the term for SCDC's independent Directors to end on December 31, 2020.

INTENT

The purpose of this report is to advise Council of the actions taken to date to complete the transfer all of the activities of the SCDC in house, and to seek Council's approval acting in its capacity as SCDC's sole shareholder to appoint a City employee as the new President of SCDC and authorize the appointment of City employees as directors as signing authorities to SCDC and its various subsidiaries, and to set the term for SCDC's independent Directors to end on December 31, 2020 which by doing so will complete the transfer of all of the activities of SCDC in house.

BACKGROUND

Council voted to dissolve SCDC, a for-profit development company owned by the City and transfer its assets and operations over to the City. Following this direction, staff have formed a transition team comprising of the General Manager, Finance, City Solicitor and Director, Strategic Initiatives & Corporate Reporting (the "Transition Team") to work with SCDC's Board and staff in the dissolution and transition of SCDC's projects, obligations and liabilities to the City.

To support the Transition Team, the City has retained BDO Canada LLP (“BDO”) to provide professional expertise, guidance and review of the City’s plans and actions in order to ensure that SCDC projects are successfully transitioned over to the City. BDO has experience in working with the City and SCDC in the capacity of providing annual financial audit services for the last three years and also have specialized knowledge and experience in assisting in the dissolving of corporate entities.

There are a number of considerations with transferring the projects and responsibilities of SCDC to the City. They are as follows:

- Project Transition;
- Staffing Needs;
- Partnerships and Continuing Obligations;
- Additional Financial Considerations; and
- Administrative Considerations.

A detailed summary of these considerations was provided to Council at their Regular Meeting on November 9, 2020 as part of Corporate Report R164; 2020, a copy of which is attached as Appendix “I”.

DISCUSSION

Since Council approved the recommendations of Corporate Report 164;2020, staff have completed a number of actions related to transfer of projects and responsibilities of SCDC to the City.

Staffing Needs

The City has commenced recruiting for a Development Manager and a Development Project Manager. The City will commence recruiting for an Accountant in early 2021.

Staff have secured SCDC’s outgoing President and Chief Executive Officer, on a short-term consulting agreement in 2021 to support ongoing projects, in particular Centre Block.

Project Transition

SCDC held a Board Meeting on November 25, 2020. At this meeting, the SCDC Board resolved that the properties related to the following projects be transferred to the City at their estimated book value.

Project	Asset Type	Timeframe
Tynehead	Development Project	Long term (5+ years)
Bakerview	Development Project	Short term
Brooksdale	Development Project	Long term (5+ years)
CH North Phase 5 - Lot 10	Development Project	Short term
Cedar Hills	Income Property	Active
Campbell Heights East Phase 1 - Remainder parcel	Development Project	Short term

Project	Asset Type	Timeframe
Campbell Heights East Phase 1 - Walmart	Development Project transitioning to an Income Property	Active
Gateway	Development Project	Active

Staff are working with SCDC to complete all of the actions related to the transfer of these assets.

Partnerships and Continuing Obligations

At SCDC's Board Meeting on November 25, 2020, the SCDC Board also resolved that:

- Jeff Arason and Vipin Sachdeva (both City employees) be appointed as authorized signatories of SCDC;
- Jeff Arason and Vipin Sachdeva be appointed as a Director of Surrey City Investment Corporation, Surrey City Investment (Industrial) Corporation, and Kwantlen Park Development Corporation – all of which are wholly owned subsidiaries of SCDC; and
- Jeff Arason and Vipin Sachdeva be appointed as Director of SCDC (34A Ave) GP Ltd. and Beedie SCDC (34A Ave) Holdings Ltd.

Further to these appointments by the SCDC Board, it is recommended that Council acting in its capacity as SCDC's sole shareholder approve the appointments and signing authorities as detailed in Appendix "II" effective January 1, 2021.

The property transfers noted above along with the recommended appointments ensures that all of SCDC's projects are under the sole administration of City staff, with the exception of the Weir Canada Development project and the Grove project.

The Weir Canada Development project is an industrial build-suit-project located in Phase 3 of the SCDC's Campbell Heights North development. The project was developed in partnership with Beedie Development Group. SCDC's interest in the project is via a wholly owned subsidiary, which itself owns shares in the partnership entity. The Grove project is a residential townhouse development project located in East Clayton. The project was developed with Townline Homes Inc. SCDC's interest in the project is through a limited partnership. Following the recommended appointments, these two projects will be jointly administrated by City staff and the development partners.

SCDC President

The Transition Team has worked with SCDC staff to secure termination and completion agreements with each employee so that effective January 1, 2021, SCDC has no employees. Therefore, SCDC will need a new President as of January 1, 2021. This role will be entirely perfunctory, effectively providing a signing authority to meet the requirements of the Corporations Act and various partnerships. As of January 1, 2021, all SCDC activities will be entirely directed and overseen by staff directly employed by the City.

It is recommended that Council acting in its capacity as SCDC's sole shareholder approve the appointment of Jeff Arason as President of SCDC effective January 1, 2021.

SCDC Board

SCDC is governed by a Board of Directors. SCDC's Board is currently made up of two independent directors and three City staff. The term of three other independent directors expired earlier this year and were not renewed given Council's direction to dissolve SCDC. As part SCDC's Articles of Incorporation, SCDC's Board shall not be less than three members or greater than seven members.

Given that SCDC has no employees as of January 1, 2021, that with the transfer of SCDC's properties and with the recommended appointments, all of SCDC's projects as of January 1, 2021 are being administrated by City staff, or through a partnership that includes City staff, it is recommended that as of January 1, 2021 the SCDC Board be comprised of only City employees: the City Manager, the Director, Strategic Initiatives & Corporate Reporting and the Senior Manager, Finance. As such, it is recommended that the term for SCDC's two remaining independent directors be set to end on December 31, 2020.

Administrative Considerations

SCDC is currently leasing 3,922 square feet of office space in Surrey Central Tower. Their lease is until September 30, 2023. SCDC has retained a broker to assist in the search for a party to assume the lease of this office space.

Legal Services Review

The City Solicitor is part of the City's Transition Team. The Legal Services Division is providing continuous support to the Transition Team. The Legal Services Division have reviewed this report and have no concerns with the contents.

Company / Project Updates

Council serving as SCDC's sole shareholder will continue to receive updates on the status of its projects through the Annual Information Meeting and Annual General Meeting

SUSTAINABILITY CONSIDERATIONS

The transfer of the majority of SCDC's real estate assets to the City and the City's continued advancement of their development projects and other future opportunities supports the objectives of the City's Sustainability Charter 2.0. In particular, this work relates to Sustainability Charter 2.0 themes of Built Environment and Neighbourhoods, and Economic Prosperity and Livelihoods. Specifically, this work supports the following Desired Outcomes ("DO") and Strategic Direction ("SD"):

- Built Environments and Neighbourhoods DO 3: The City Centre is a dynamic, attractive and complete metropolitan area and important international destination, and is one of North America's most livable and desirable downtowns;
- Neighbourhoods and Urban Design DO6: Land is used efficiently and sensitively and development minimizes the impacts on the natural environment, views capes, agricultural land and urban wildlife;
- Neighbourhoods and Urban Design SD1: Promote mixed use development in and around Town Centres and along transit corridors;

- Economic Prosperity and Livelihoods DO 1: Diverse and meaningful employment and business opportunities are available close to where people live, and provide incomes that can support a high quality of life; and •
- Economy DO8: The City's strong revenue base includes a balance of commercial and residential property taxes.

CONCLUSION

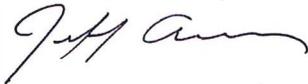
Following the approval of the recommendations of this report and the completion of the transfer of SCDC's properties to the City at the end of this year, the transfer all of SCDC's activities in house will be complete.



Kam Grewal, CPA
General Manager, Finance



Scott Neuman, P.Eng.
General Manager, Engineering



Jeff Arason, P.Eng.
Director, Strategic Initiatives & Corporate Reporting

JA/

Appendix "I" – Corporate Report R164; 2020

Appendix "II" – Recommended Appointments and Signing Authorities

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Note: Appendices available upon request.

APPENDIX “III”
Minutes of the September 23, 2020 Annual General Meeting



Minutes of the 2020 Annual General Meeting of the shareholder of Surrey City Development Corporation	Wednesday September 23, 2020 Online via Zoom 5:30 p.m. – 6:30 p.m.
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<u>Board Members:</u>	<u>Corporation Officers Present:</u>
Howard Nemtin, Chair	Michael Heeney: President & CEO Christopher Bettencourt: Corporate Secretary <u>Others present at the meeting:</u> Amanda Zizek: Controller Philip Huynh, City of Surrey Reny Kahlon, SCDC

Philip Huynh, City Solicitor of the City of Surrey presented a proxy form confirming his designation to vote on behalf of the City of Surrey as shareholder at the Surrey City Development Corporation Annual General Meeting on September 23, 2020. The proxy form being accepted by the chair, the meeting was convened at 5:30pm

1. APPROVAL OF THE AGENDA

2. APPROVAL OF THE MINUTES

The minutes of the Annual General Meeting of June 18, 2019 were approved.

3. FINANCE

The audited 2019 financial statements were presented to the shareholder by the Ms. Zizek, Controller.

The audited 2019 financial statements as presented were approved.

4. APPOINTMENT OF COMPANY AUDITORS FOR 2020

The appointment of BDO Canada LLP as the Auditors for the year ending 2020 was approved.

5. REPORT OF DIRECTORS TO SHAREHOLDER

The report by the directors to the shareholder was received.

6. ADJOURNMENT

There being no further business, the meeting was adjourned at 5:34pm

Approved _____, 2021

Jeff Arason, Chair

Christopher Bettencourt, Corporate Secretary

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Surrey City Development Corporation (the "Corporation") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of Chartered Professional Accountants Canada. A summary of the significant accounting policies are described in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by BDO Canada LLP, independent external auditors appointed by the Corporation. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.

Jeff Arason
Director, SCDC

Vipin Sachdeva
CFO, SCDC

April 8, 2021



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BDO Canada LLP
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1055 West Georgia Street
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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Surrey City Development Corporation

Opinion

We have audited the consolidated financial statements of Surrey City Development Corporation and its controlled entities (the "Consolidated Entity") which comprise the Consolidated Statement of Financial Position as at December 31, 2020 and the Consolidated Statements Operations, Consolidated Changes in Net Debt, and Consolidated Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entity as at December 31, 2020 and its consolidated results of operations, consolidated changes in net debt, and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Consolidated Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Entity, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Consolidated Entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally-accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally-accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. But not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 8, 2021

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2020, with comparative information for 2019

	2020	2019
Financial assets:		
Cash	\$ 9,175,674	\$ 2,104,659
Due from governments (note 4)	1,155,642	187,323
Investment in government business partnership (note 5)	624,288	530,591
Accounts receivable	101,695	97,848
Portfolio investments (note 6)	955,000	955,025
Performance bonds and deposits	10,200	35,000
Tenant inducements	102,558	90,009
	<u>12,125,057</u>	<u>4,000,455</u>
Liabilities:		
Accounts payable and accrued liabilities (note 7)	1,814,485	2,132,377
Due to governments	-	252
Loan payable (note 8)	11,635,944	12,111,747
Deposits (note 9)	128,773	541,943
Deferred gains (note 10)	394,162	405,130
Unearned revenue (note 11)	27,949,605	5,600,652
Due to City of Surrey (note 12)	35,336,195	35,931,485
	<u>77,259,164</u>	<u>56,723,586</u>
Net debt	(65,134,107)	(52,723,131)
Non-financial assets:		
Tangible capital assets (note 13):		
Properties under development	86,501,645	78,249,002
Income properties	20,395,614	20,642,042
Tangible capital assets in use	32,503	59,785
	<u>106,929,762</u>	<u>98,950,829</u>
Prepaid expenses	30,263	52,041
	<u>106,960,025</u>	<u>99,002,870</u>
Accumulated surplus (note 14)	\$ 41,825,918	\$ 46,279,739

Contractual obligations (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



President



CFO

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2020, with comparative information for 2019

	Budget 2020	2020	2019
	(Note 19)		
Income from sales of development properties:			
Proceeds of sales	\$ 18,510,000	\$ 145,125	\$ 6,351,184
Less: Cost of sales	(8,811,300)	33,078	(1,570,686)
Development property sales income, net	9,698,700	178,203	4,780,498
Gain on sale of income property	10,600,000	-	-
Gain on sale of portfolio investment	-	-	2,641,520
Income property lease revenue, gross	1,999,600	3,058,101	1,963,994
Less: Income property lease direct costs - operating	(838,728)	(978,084)	(777,502)
Less: Income property lease direct costs - interest	(464,472)	(464,472)	(482,751)
Property lease income, net	696,400	1,615,545	703,741
Income from government business partnership (note 5)	287,000	297,130	301,436
Interest and other income	40,000	71,471	262,389
	21,322,100	2,162,349	8,689,584
Corporate operating expenses (note 17):			
Administration	831,930	398,465	640,469
Income properties	554,620	265,643	320,235
Properties under development	1,386,550	664,109	1,174,193
	2,773,100	1,328,217	2,134,897
Partnership operating expenses	5,000	2,249	2,139
	2,778,100	1,330,466	2,137,036
Annual surplus from operations	18,544,000	831,883	6,552,548
Corporate reorganization costs (note 22)	-	(785,076)	-
Preferred shares redeemed	(1,360,000)	(628)	-
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus (deficit)	12,684,000	(4,453,821)	2,052,548
Accumulated surplus, beginning of year	46,279,739	46,279,739	44,227,191
Accumulated surplus, end of year	\$ 58,963,739	\$ 41,825,918	\$ 46,279,739

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2020, with comparative information for 2019

	Budget 2020	2020	2019
	(Note 19)		
Annual surplus:			
Annual surplus from operations	\$ 18,544,000	\$ 831,883	\$ 6,552,548
Corporate reorganization costs (note 22)	-	(785,076)	-
Preferred shares redeemed	(1,360,000)	(628)	-
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
	12,684,000	(4,453,821)	2,052,548
Acquisition of tangible capital assets:			
Properties under development (notes 19(b)(i) and 19(b)(ii))	(73,880,600)	(7,690,111)	(19,208,443)
Capitalization of wages to development	(651,700)	(562,532)	(853,369)
Administration	(99,200)	(8,301)	(17,101)
Disposal of tangible capital asset		3,507	-
Income properties	(87,300)	(5,559)	(162,729)
	(74,718,800)	(8,262,996)	(20,241,642)
Amortization of tangible capital assets:			
Administration	51,900	32,077	36,580
Income properties	238,400	251,986	248,435
	290,300	284,063	285,015
Transfer to properties held-for-sale	28,931,300	-	1,189,594
Change in prepaid expenses	(10,000)	21,778	(1,964)
Increase in net debt	(32,823,200)	(12,410,976)	(16,716,449)
Net debt, beginning of year	(52,723,131)	(52,723,131)	(36,006,682)
Net debt, end of year	\$ (85,546,331)	\$ (65,134,107)	\$ (52,723,131)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 831,883	\$ 6,552,548
Annual deficit from corporate reorganization (note 22)	(785,076)	-
Items not involving cash:		
Amortization	284,063	285,015
Amortization of deferred gains	(10,967)	(10,967)
Gain on sale of properties under development	(178,203)	(4,780,498)
Gain on sale of Investment in Bosa Properties (Bright A.1) LP	-	(2,641,520)
Equity earnings of government business partnership	(299,697)	(302,252)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	(3,847)	4,105,011
Increase in performance bonds and deposits	24,800	(5,000)
Decrease (increase) in tenant inducements	(12,549)	21,478
Decrease (increase) in due from governments	(968,320)	(19,746)
Increase (decrease) in accounts payable and accrued liabilities	(317,892)	758,734
Decrease in due to governments	(252)	(153,659)
Decrease in deposits	(413,170)	(5,234)
Increase in unearned revenue	22,348,953	1,715,286
Decrease (increase) in prepaid expenses	21,778	(1,964)
	20,521,504	5,517,232
Capital:		
Purchase of tangible capital assets	(8,266,503)	(20,241,642)
Disposal of tangible capital assets	3,507	-
Increase in costs on projects sold in prior years	-	(199,848)
Investment in available for sale properties	-	(181,244)
	(8,262,996)	(20,622,734)
Investments:		
Distribution of cash from Beedie LP	206,000	216,000
Proceeds on disposal of portfolio investments	25	5,500,000
Net proceeds from disposal of Investment in Bosa Properties (Bright A.1) LP	-	3,025,372
Net proceeds from disposal of properties held-for-sale and properties under development	178,203	6,351,184
	384,228	15,092,556
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Increase (decrease) in due to City of Surrey	(595,290)	5,468,978
Repayment of loans payable	(475,803)	(457,690)
Redemption of preferred shares	(628)	-
	(5,571,721)	511,288
Net increase in cash	7,071,015	498,342
Cash, beginning of year	2,104,659	1,606,317
Cash, end of year	\$ 9,175,674	\$ 2,104,659

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2020

1. Nature of operations:

Surrey City Development Corporation (the "Corporation") is a corporation established on April 24, 2007. The Corporation is a wholly owned subsidiary of the City of Surrey (the "City"), and its Board is appointed by the Council of the City. The Corporation's activities serve to advance the commercial, industrial and residential development of the City. The Corporation is exempt from income tax under section 141(a) of the Income Tax Act (Canada).

As at December 31, 2020, the Corporation had an accumulated operating surplus (note 14) of \$31,445,818 (2019 - \$35,899,011). The City has supported the Corporation through property transfers, loans and equity investments.

In April 2020, Surrey City Council gave support to a motion to dissolve the Corporation and transfer its operations to the City. The City has formed a transition team of senior staff members which is currently undertaking the dissolution and transition of the Corporation's assets and liabilities to the City in an orderly manner.

2. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") established by the Canadian Public Sector Accounting Board for Other Government Organizations.

(b) Basis of consolidation:

The consolidated financial statements reflect the proportionate share of the assets, liabilities, revenues, and expenses of the controlled or jointly controlled organizations listed below. The proportionate share of all inter-departmental and inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

All controlled entities are consolidated at the Corporation's ownership percentage, with controlled government business enterprises being accounted for using the modified equity method.

All government partnerships are proportionately consolidated. All government business partnerships are accounted for using modified equity method.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

2. Significant accounting policies (continued):

(b) Basis of consolidation (continued):

The Corporation has ownership in the following entities:

(i) Surrey City Investment Corporation ("SCIC"):

SCIC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of SCIC.

(ii) Grove Limited Partnership:

The Corporation has 50% ownership in the Grove Limited Partnership ("Grove LP") (note 3 (b)). Grove LP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

(iii) Grove (G.P.) Inc.:

Grove (G.P.) Inc. ("Grove GP") is the General Partner of Grove LP (note 3(d)). The Corporation has 50% ownership in Grove GP. Grove GP Inc. is a corporation and is proportionately consolidated into the Corporation's consolidated financial statements.

(iv) Surrey City Investment (Industrial) Corporation ("SCIIC"):

SCIIC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of SCIIC.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) Limited Partnership ("Beedie LP") (note 5). Beedie LP meets the criteria of a government business partnership and is accounted for using the modified equity method.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd. ("Beedie GP"), the General Partner of Beedie LP (note 5). Beedie GP is a corporation and is accounted for using the modified equity method.

(v) Kwantlen Park Development Corporation ("KPDC"):

KPDC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of KPDC. KPDC has had no activity to date.

(c) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

2. Significant accounting policies (continued):

(d) Non-financial assets:

(i) Tangible capital assets:

(a) Properties under development:

Properties under development include costs related to projects currently under planning, development or construction that will result in a finished real estate asset at a future date. Interest incurred on the development project is capitalized. Completed projects will either be reclassified as income properties, or properties held-for-sale. Costs related to planning, development or construction are capitalized until such time as the property is ready for use or sale.

(b) Income properties:

Properties held with the expectation of earning rental income are considered to be income properties. These properties include retail or commercial space that the Corporation leases to third parties.

(c) Tangible capital assets in use:

Tangible capital assets in use relate to administrative assets required by the Corporation to operate and manage overhead and administrative activities. These include computer equipment and software, furniture and fixtures, tenant improvements and other related assets.

(ii) Amortization of tangible capital assets:

The cost, less residual value, of tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Administration assets:	
Furniture and fixtures	5 years
Computer equipment and software	3 years
Tenant improvements	5 years
Income properties:	40 years

The useful lives of income properties are determined on an asset-by-asset basis based on estimated remaining useful lives at the time of acquisition or completion of construction.

No amortization is recorded on properties under development. Amortization commences once the development is complete and the property is held or used as an income property.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

2. Significant accounting policies (continued):

(d) Non-financial assets:

(iii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits are less than their net book value. Any impairment is accounted for as an expense in the consolidated statement of operations.

(iv) Transfers of tangible capital assets:

Certain transfers of tangible capital assets to partners are recorded at agreed-upon values, representing market values. Any gains on such transfers, realizable from third parties are deferred and will be recognized once the assets are sold outside the related group, or utilized in the future operations of such assets.

(e) Prepaid expenses:

Prepaid expenses include insurance and other items paid in advance and are recognized as an expense over the period of expected benefits.

(f) Revenues:

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Such contingent gains or assets will be separately disclosed.

(i) Sales of properties:

Revenue recognition on sale of properties occurs when the Corporation has transferred the significant risks and rewards of ownership to the purchaser.

The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.

(ii) Property lease revenue:

Property lease revenue includes all amounts earned from tenants including property tax and operating cost recoveries. Lease revenues are recognized on a straight-line basis over the term of the lease.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

2. Significant accounting policies (continued):

(g) Expenses:

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense is recorded using the effective interest method which includes all debt servicing costs.

(h) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include useful life, impairment and net recoverable values of tangible capital assets, provisions for accrued liabilities, commitments, and fair value of non-monetary land transfers.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Actual results could differ from these estimates.

3. Investments in government partnerships:

(a) Grove LP:

The Grove LP was established on September 1, 2011, for the purpose of developing 141 market townhomes in Surrey.

The Corporation provided contributions of land to the Grove LP in exchange for its 50% limited partnership units.

Decision making for the Grove LP is vested in the General Partner, the Grove (G.P.), of which the Corporation holds 50% of the issued and outstanding shares. The Limited Partners do not exercise day-to-day management or control of the operations of the Grove LP. Financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%.

The Grove LP began property development during fiscal 2011. All related costs to date have been capitalized. All market townhomes have been completed and sold. The project is in the warranty period.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

3. Investments in government partnerships (continued):

(b) Grove LP (continued):

The Corporation's proportionate share included in these consolidated financial statements is as follows:

	2020	2019
Financial assets:		
Cash	\$ 107,684	\$ 84,079
Accounts receivable	540	370
Deposits	-	25,000
	108,224	109,449
Liabilities:		
Accounts payable and accrued liabilities	171	9
Deferred gain	3,000	3,000
	3,171	3,009
Net Financial Assets	105,053	106,440
Accumulated surplus	\$ 105,053	\$ 106,440

	2020	2019
Revenues, net of direct costs	\$ 14,520	\$ 1,738
Operating expenses	(2,249)	(2,138)
Annual surplus	\$ 12,271	\$ (400)

4. Due from governments:

	2020	2019
GST receivable	\$ 116,577	\$ 26,414
Development costs recoverable from the City of Surrey (a)	1,039,065	160,909
	\$ 1,155,642	\$ 187,323

The Corporation has commenced development of certain properties that are owned by the City of Surrey. The development costs have been incurred on the City's behalf. The City is in the process of dissolving the Corporation and transferring its assets to the City. Upon completion of this transition, the development costs recoverable from the City will be added to the City's capital cost of the subject properties.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

5. Investment in government business partnership:

The Beedie LP was established on September 9, 2014 to develop a build-to-suit industrial building in Surrey. Development of the industrial building was completed in 2016 and the building has since been occupied by a tenant under a long term lease. The Corporation's partnership interest is held through SCIIC, which provided contributions of cash and land to fund development. Beedie LP meets the criteria of a government business partnership and results are accounted for under the modified equity method. The liability of the Corporation is limited to the cash and land which it has contributed to the Beedie LP through SCIIC.

The Corporation's proportionate share in respect of this entity is as follows:

	2020	2019
Financial assets:		
Cash	\$ 31,852	\$ 60,644
Accounts receivable	46,159	8,632
Straight-line rent receivable	428,745	329,804
	<u>506,756</u>	<u>399,080</u>
Liabilities:		
Accounts payable and accrued liabilities	28,929	19,263
Accounts payable to Beedie LP partners	-	2,692
Deposits payable	46,530	48,357
Long-term debt	8,584,566	8,882,483
	<u>8,660,025</u>	<u>8,952,795</u>
Net Debt	(8,153,269)	(8,553,715)
Tangible capital assets	8,531,734	8,818,451
Prepaid expenses	245,823	265,855
Accumulated surplus	\$ 624,288	\$ 530,591
	<u>2020</u>	<u>2019</u>
Income property lease revenue, gross	\$ 1,051,456	\$ 1,081,613
Income property lease direct costs	(754,326)	(780,177)
Annual surplus	\$ 297,130	\$ 301,436

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

6. Portfolio investments:

	2020	2019
Term deposits	\$ -	\$ 25
GIC (a)	955,000	955,000
	\$ 955,000	\$ 955,025

The GIC has a maturity date of September 17, 2021 with a yield of 0.10% (2019 – 1.896%).

7. Accounts payable and accrued liabilities:

	2020	2019
Trade accounts payables and accrued liabilities	\$ 1,102,923	\$ 1,226,039
Holdbacks payable	711,562	906,338
	\$ 1,814,485	\$ 2,132,377

8. Loan payable:

	2020	2019
Cedar Hills loan payable, 10-year term due for renewal on November 1, 2022, payable in monthly payments of blended principal and interest in the amount of \$78,497 with interest at 3.95% per annum, secured by a mortgage on the commercial property with a carrying value that exceeds the loan amount	\$ 11,635,944	\$ 12,111,747
	\$ 11,635,944	\$ 12,111,747

Scheduled principal payments on the loans payable over the next two years and thereafter are as follows:

2021	495,037
January 1 – November 1, 2022	470,537
Thereafter	10,670,370
	\$ 11,635,944

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

9. Deposits:

	2020	2019
Deposits received from income property tenants	\$ 128,773	\$ 111,443
Deposits received from development property purchasers	-	430,500
	\$ 128,773	\$ 541,943

10. Deferred gains:

	2020	2019
Deferred gain on Grove LP land (note 3(b))	\$ 3,000	\$ 3,000
Deferred gain on Beedie LP land	391,162	402,130
	\$ 394,162	\$ 405,130

The Corporation has transferred land to the partnerships in lieu of their equity contributions to the development projects. As the land is being transferred at its estimated fair market value, there is an inherent gain on the transfer. The portion of the gain related to the Corporation's partnership interest has been eliminated. The portion of the gain attributed to the non-related parties has been deferred and will be recognized either upon the sale of the project to unrelated parties or amortized over the useful life of the project.

11. Unearned revenue:

Unearned revenue represents cash received by the Corporation for a ten-year lease prepayment, development cost charges and additional site work performed for one tenant with respect to a land lease. Unearned revenue is being recognized into income property revenue on a straight-line basis over the periods to which they relate.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

12. Due to City of Surrey:

	2020	2019
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, paid in November 2020 (Development cost charges).	\$ -	\$ 1,972,334
Loan payable #1, interest charged at Royal Bank of Canada prime rate, payable on demand, (Interim project financing)	11,649,865	13,609,418
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$25,084, with interest at 0.91%, maturing annually (Brooksdale).	5,460,437	5,682,361
Loan payable #3, payable in monthly installments of blended principal and interest in the amount of \$45,581, with interest at 1.28%, maturing annually (Walmart).	11,525,893	-
Class A Preferred Shares, non-interest bearing, redeemed during 2020 (Campbell Heights East).	-	7,967,372
Class A Preferred Shares, non-interest bearing, redeemable no later than January 31, 2022 (Tynehead).	6,700,000	6,700,000
	<hr/>	<hr/>
	\$ 35,336,195	\$ 35,931,485

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

13. Tangible capital assets:

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2020 Net book value
Cost						
Opening balance	\$ 78,249,002	\$ 12,579,682	\$ 9,785,277	\$ 22,364,959	\$ 536,471	101,150,432
Additions	8,252,643	-	5,559	5,559	8,301	8,266,503
Disposals and write downs	-	-	-	-	(5,508)	(5,508)
Closing balance	86,501,645	12,579,682	9,790,836	22,370,518	539,264	109,411,427
Accumulated amortization						
Opening balance	-	-	1,722,917	1,722,917	476,686	2,199,603
Current year amortization	-	-	251,986	251,986	32,077	284,063
Disposals	-	-	-	-	(2,001)	(2,001)
Closing balance	-	-	1,974,903	1,974,903	506,762	2,481,665
Net book value	86,501,645	12,579,682	7,815,932	20,395,614	32,503	106,929,762

During the year, \$412,050 of interest was capitalized to properties under development (2019 – \$313,470).

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2019 Net book value
Cost						
Opening balance	\$ 59,376,784	\$ 12,579,682	\$ 9,622,548	\$ 22,202,230	\$ 519,370	82,098,384
Additions	20,061,812	-	162,729	162,729	17,101	20,241,642
Transfer to assets held for sale	(1,189,594)	-	-	-	-	(1,189,594)
Closing balance	78,249,002	12,579,682	9,785,277	22,364,959	536,471	101,150,432
Accumulated amortization						
Opening balance	-	-	1,474,482	1,474,482	440,106	1,914,588
Current year amortization	-	-	248,435	248,435	36,580	285,015
Closing balance	-	-	1,722,917	1,722,917	476,686	2,199,603
Net book value	\$ 78,249,002	\$ 12,579,682	\$ 8,062,360	\$ 20,642,042	\$ 59,785	\$ 98,950,829

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

14. Accumulated surplus:

Accumulated surplus is comprised of:

	2020	2019
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	10,380,000	10,380,628
Accumulated operating surplus (b)	31,445,818	35,899,011
	<u>\$ 41,825,918</u>	<u>\$ 46,279,739</u>

(a) Share capital:

The Corporation was established by the City pursuant to Section 185 of the Community Charter with the intent that, until the City Council otherwise determines, all shares will be held by the City.

(i) Common shares:

The authorized capital of the Corporation includes 100 common shares without par value which are issued and outstanding as fully paid and non-assessable by the City.

(ii) Preferred shares:

The Corporation is authorized to issue an unlimited number of preferred shares without par value. As of December 31, 2020, the Corporation has 10,380 preferred shares (2019 – 10,381) outstanding that are classified as accumulated surplus. The Corporation intends to redeem the preferred shares as properties are sold or as lands are developed.

No preferred shares were issued by the Corporation to the City during 2020.

No preferred shares were redeemed from accumulated surplus by the Corporation during 2020 (2019 – nil).

(b) The change in accumulated operating surplus is as follows:

	2020	2019
Accumulated operating surplus, opening	\$ 35,899,011	\$ 33,846,463
Annual surplus current year	831,883	6,552,548
Corporate reorganization costs (note 22)	(785,076)	-
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 31,445,818</u>	<u>\$ 35,899,011</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

15. Contractual obligations:

The Corporation is obligated to reimburse the City for all operating costs incurred by the City on behalf of the Corporation; all such amounts have been accrued as incurred.

The Corporation has entered into various agreements and contracts for services and construction. Commitments outstanding as at December 31, 2020 are \$1.8 million (2019 - \$4.1 million), inclusive of the Corporation's proportionate share of Partnership commitments of nil (2019 - \$1,888).

The Corporation has a letter of credit outstanding for \$955,000. The letter of credit is required as an environmental security. To date, no draws have been made against it.

The Corporation is still responsible for a proportionate share of warranty and indemnity provided to the purchaser of the 5 corporate office entities of the Surrey Centre Limited Partnerships. The warranty and indemnity is equivalent to the 2/5/10 warranty insurance customary for residential units. The warranty and indemnity provided by SCDC was made in proportion to SCIC's ownership percentage of the Surrey Centre Office Limited Partnership. The Corporation has assessed the potential risk and believes there is no material exposure and therefore no accrual has been recognized.

16. Operating lease:

The Corporation leases office space. The lease expires on September 30, 2023. Future payments are as follows:

2021	\$125,504
2022	125,504
2023	94,128
Total	\$345,136

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

17. Operating expenses by object:

The following is a summary of operating expenses by object:

	2020	2019
Advertising and promotion	\$ -	\$ 9,040
Amortization	32,077	36,580
Bad debt expense	-	11,678
Communication	33,935	37,121
Consulting and professional	74,852	500,210
Directors' fees	181,050	161,285
Donations	9,500	49,613
Insurance	21,091	19,814
Interest on operating loan	299,157	137,363
Lease and rentals	206,192	205,585
Membership and training	36,247	56,194
Salaries and benefits	1,244,340	1,824,344
Supplies and materials	18,881	37,293
Service maintenance	33,612	38,505
Travel	1,221	5,543
	2,192,155	3,130,168
Interest on operating loan capitalized to development projects	(299,157)	(137,363)
Predevelopment costs capitalized to development projects	-	(2,400)
Salaries and benefits capitalized to development projects	(562,532)	(853,369)
	\$ 1,330,466	\$ 2,137,036

18. Related party transactions:

Related parties include the City and its related entities as well as the government partnerships that the Corporation has an ownership interest in. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with government partnerships have been disclosed in note 3. Preferred share transactions have been disclosed in note 14 and note 16.

- (i) The Corporation incurred interest costs of \$468,847 (2019 - \$313,470) on the Corporation's loans payable to the City.
- (ii) Property taxes, utilities and ancillary items of \$404,969 (2019 - \$314,232) were incurred by the Corporation and payable to the City.
- (iii) Permits, deposits and related fees of \$2,027,186 (2019 - \$3,658,044) were incurred by the Corporation and payable to the City.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

19. Budgeted figures:

- (a) Budgeted figures are provided for comparative purposes and were derived from the budget approved by City Council for the City of Surrey.
- (b) The budgeted figures included the following items which did not occur in 2020:
 - (i) The development of certain projects, including the development of projects through partnerships;
 - (ii) The transfer of certain lands to the Corporation from the City.
 - (iii) The disposal of certain income property.

20. Contractual rights:

The Corporation is party to several fixed term lease agreements on income properties that are anticipated to provide it with future revenues. These agreements are for terms that vary from 2 to 10 years. Amounts anticipated to be received over future years are as follows:

2021	\$1,488,765
2022	1,294,820
2023	950,339
2024	590,158
2025-2030	1,090,397

21. Comparative figures:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

22. Corporate Reorganization:

In April 2020, Surrey City Council gave support to a motion to dissolve the Corporation and transfer its operations to the City. The City has formed a transition team of senior staff members which is currently undertaking the dissolution and transition of the Corporation's assets and liabilities to the City in an orderly manner. To support the transition team, the City has retained an external consultant to provide professional expertise, guidance and review of the City's plans and actions in order to ensure a successful transition.

The term for the Corporation's independent directors and employment contracts for all Corporation staff ended on December 31, 2020. All associated severance and professional fees were accrued and recorded in the corporate reorganization costs. The City has appointed a City employee as the new President of the Corporation and authorized the appointment of two City employees as directors and signing authorities for the Corporation and its various subsidiaries.

The City has undertaken efforts to initiate the transfer of 11 of the 14 properties controlled by the Corporation at their estimated book values. The transfer of the three remaining properties is subject to further due diligence and consideration.

23. Financial Risks:

(i) Credit risks:

The Corporation is exposed to this risk relating to its cash, debt holdings in its investment portfolio and accounts receivable. The Corporation holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Corporations cash accounts are insured up to \$100,000 (2019 - \$100,000).

The Corporation's investment consists of a guaranteed investment certificates with Royal Bank of Canada. The maximum exposure to investment credit risk is outlined in Note 6.

Credit risk on accounts receivable relates to monthly rental income collected through a property manager. Credit risk is mitigated by credit approval processes before a property is leased. The Corporation mitigates its risk by collecting rents on a monthly basis and holding rent deposits. An impairment allowance has not been deemed necessary based on the Corporations historical experience regarding collections.

(ii) Market risks:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(iii) Currency risks:

All transactions are in Canadian dollars, so no currency risk exists.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

23. Financial Risks (continued):

(iv) Interest rate risks:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Corporation is exposed to this risk through its GICs whose fair value can be impacted by changes in rates.

The Corporation mitigates interest rate risk on its investments by investing in fixed rate investments. Therefore, fluctuations in market interest rates do not impact future cash flows. The impact on fair values is not considered material due to the relatively short terms to maturity.

The Corporation's loan payable has a fixed rate of interest of 3.95% per annum as disclosed in Note 8.

The Corporation's financing with the City of Surrey has interest rates as disclosed in Note 13.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(v) Liquidity risks:

Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due. The Corporation mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining financing arrangements with the City of Surrey and ensuring financing payments are tied to development activities (cash inflows).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.